



# LEGISLATIVE FINANCE COMMITTEE

## 59<sup>TH</sup> Montana Legislature

Room 110 Capitol Building \* P.O. Box 201711 \* Helena, MT 59620-1711 \* (406) 444-2986 \* FAX (406) 444-3036

### SENATE MEMBERS

JOHN COBB, CHAIRMAN  
KEITH BALES  
MIKE COONEY  
RICK LAIBLE  
DON RYAN  
CAROL WILLIAMS

### HOUSE MEMBERS

ROSALIE BUZZAS, VICE CHAIRMAN  
GARY BRANAE  
TIM CALLAHAN  
RAY HAWK  
RICK RIPLEY  
JOHN SINRUD

## MINUTES

December 6 & 7, 2005  
Room 137, State Capitol  
Helena, Montana

### ROLL CALL

Sen. Rick Laible  
Sen. Mike Cooney  
Sen. Carol Williams  
Sen. Don Ryan  
Sen. John Cobb  
Rep. Gary Branae  
Rep. Rosalie Buzzas  
Rep. Ray Hawk  
Rep. Tim Callahan  
Clayton Schenck, Legislative Fiscal Analyst  
Diane McDuffie, Committee Secretary

### EXCUSED

Sen. Keith Bales  
Rep. Rick Ripley  
Rep. John Sinrud

### Attachments

Visitor's list #1  
Proxy for Rep. Sinrud #2

### Call to Order (Tape 1A-001)

**Senator John Cobb**, Chairman, called the 194<sup>th</sup> meeting of the Legislative Finance Committee (LFC) to order at 1:00 p.m. on Tuesday, December 6, 2005. The meeting was held in Hearing Room 137 of the State Capitol, Helena, Montana.

Clayton Schenck, LFA, introduced Kris Wilkinson, recently hired to fill the vacant fiscal analyst position in the Legislative Fiscal Division (LFD).

**1. Approval of Minutes for October 6 & 7, 2005** (Tape 1A-040)

**MOTON: Sen. Cooney** moved the minutes of the October 6 & 7, 2005 meeting be approved as submitted. **VOTE:** The motion carried unanimously.

**2. Correctional Facility Expansion Plans** (Tape 1A-050)

Pat Gervais, Senior Fiscal Analyst Legislative Fiscal Division (LFD) presented a memo on Correctional Facility Expansion. (Exhibit 1) The memo includes information on the actions under consideration by the Department of Corrections (DOC) to house the larger than anticipated population of offenders.

Ms. Gervais reported that some of the actions undertaken or under consideration by the department vary from the actions approved and funded by the legislature. The legislature did provide a biennial appropriation for secure care populations. The legislature also provided the department with a large degree of flexibility in developing options to serve the increase in offenders with emphasis placed on development of community options.

**3. Update on Prison Population Projections/Fiscal Impact** (Tape 1A-065)

Pat Gervais, LFD staff presented a memo on Prison Population. (Exhibit 2) The purpose of this report is to provide the committee with information regarding the prison population and the potential supplemental appropriation for this biennium that may be necessary in order to fund the increase in the population. Ms. Gervais said that at the time the memo was written, the DOC had not revised its population estimates for fiscal years 2006 or 2007 and continues to use the estimates that were included in the October report to the LFC. As a result, there is no change to report in the potential supplemental for the department. The various actions under consideration by DOC were presented to the Corrections Advisory Council. There was some discussion on a number of actions under considerations but no action was taken. The department hopes to have the revocation center open in mid-December 2005 and the request for proposals (RFP) for methamphetamine treatment beds has been issued with the department planning to award contract(s) for treatment beds in March, 2006. It is currently unknown how much time will be required to provide the methamphetamine treatment beds after the contract is awarded.

Rhonda Schaffer, Fiscal Bureau Chief, DOC reported that at the end of FY 05 the department's total expenditures in contracted beds was \$19.9 million. The department started FY 06 with a

budget of \$17.6 million. The department provided the committee with a handout on the Breakdown of FY 06 Budget Overages. (Exhibit 2a) Ms. Schaeffer explained the overages and the total shortage is (11,761,016).

**Rep. Buzzas** asked how soon prisoners would be sent out of state and what are the costs attached. Director Slaughter said that preliminary discussions with Corrections Corporation of American is that the rate would be the same as the Shelby facility, 200 beds at \$53.61 per day per bed. There would also be contract monitor costs and transportation costs.

Director Slaughter provided a copy of the DOC Status Report and the Schedule of Proposed Expansion of Community Contracted Services – FY 2006, 2007. (Exhibits 3 & 3a) He provided detailed information on the Revocation Center, Methamphetamine Treatment Program, special-needs facility, prerelease expansions, Correctional Officer recruitment, old reception unit at MSP, out-of-state transfer of inmates and Crossroads Correctional Center expansion.

### **3. Department of Public Health and Human Services: Program Issues** (Tape 1B-248)

HIFA Waiver: Workgroup Study - Lois Steinbeck, Senior Fiscal Analyst, LFD reported on the HIFA Waiver: Workgroup Study. She said the meeting will be held in conjunction with the Interim Children, Families, Health and Human Services on Thursday, December 8, 2007. The LFC workgroup decided to join the Children, Families, Health and Human Services interim committee to reduce the workload impact on the agency and to provide more time to respond to issues or comments. The three members from the LFC on the HIFFA workgroup are Chairman Cobb, Senator Williams, and Representative Hawk.

CHIPS Contract Issues - Lois Steinbeck provided a report on CHIP 2005-06 Contract, Enrollment, and Outreach. (Exhibit 4) The purpose of this report is to provide information on the current contract for administration of the Children's Health Insurance Program (CHIP), review of historic and current CHIP enrollment, and scenarios to increase CHIP enrollment. The report also identifies issues for LFC consideration. She explained in detail CHIP enrollment and premium changes. Also provided for review is a copy of the Chip Enrollment Plan (Exhibit 4a) and the legal opinion regarding several statutes governing administration of CHIP (Exhibit 5).

Joan Miles, Director, DPHHS, commented on the negotiation process and said the department is seriously considering a self-administered program for next year. It would not have been prudent for them to proceed this year once the department understood what the one-time costs would be to self-administer.

John Chappius, DPHHS, briefly discussed the CHIP contract and some of the outreach activities the department has provided.

Mary Dalton, Health Resources Division, DPHHS said more aggressive outreach is planned for January involving newspapers, TV, and radio.

In response to a question by **Senator Williams** as to why there is no waiting list for CHIP, John Chappius, DPHHS, said the department does not want a waiting list. The department is committed to serving people as soon as they apply.

**Rep. Buzzas** asked if there will be a media plan and will it have outcomes to measure. Ms. Dalton said there will be a plan and a copy will be provided to the committee when it's completed.

**Chairman Cobb** appointed Senator Cooney and Senator Williams to provide oversight concerning CHIP enrollment and outreach.

Department Budget Status: Budget Pressure Points – Lois Steinbeck presented a memo on the \$3 Million FY 2006 DPHHS General Fund Shortfall. (Exhibit 6) The purpose of this report is to provide the committee with information regarding the MSH shortfall and the potential for a supplemental appropriation. The budget status report (BSR) for FY 2006 projects that DPHHS will have a \$3 million net general fund deficit primarily due to cost over runs of \$3.1 million at the Montana State Hospital (MSH) and \$1.4 million at the Montana Development Center (MDC). Other programs also have projected deficits, but the amounts are lower. The projected deficit is partially offset by under-expenditures in home-based services and nursing home services. DPHHS received permission from the Office of Budget and Program Planning (OBPP) to hire an additional 36.6 FTE and to increase wages to remain competitive.

Pat Gervais stated that the department indicates a \$1.4 million general fund shortfall is expected in personal services at MDC due to increased overtime costs, benefits associated with overtime costs, and an inability to meet the budgeted vacancy savings reductions. Staff raises two issues: 1) the budget analysis did point out that overtime costs appeared to be under-funded and questioned the level of overtime costs requested in the budget; and 2) the division added funds to the provider rate increase above the level appropriated by the legislature.

Ms. Steinbeck pointed out one of the major issues considered by the appropriations subcommittee was the development of mental health crisis services, which was identified as one of the top priorities. Options that the LFC could consider include: 1) continue to monitor budget status report; 2) request that LFD staff research and evaluate why community services costs for the elderly and physically disabled are projected to be lower than anticipated; 3) request that DPHHS explain its rationale for giving provider rate increases above the level appropriated; and 4) request that DPHHS explain what steps it is taking to help communities develop community crisis services for the adult mental health system.

John Chappius, DPHHS said the department is working to mitigate the \$3.1 million shortfall. He provided a report on All Medicaid Eligibles FY 2005 & FY 2006 (Exhibit 7). The report provided information on TANF, Pregnant Women and Infants, Medicaid Disabled, Aged & Disabled, Medicaid eligibles aged 65 & up, Family Medicaid, Transitional Medicaid, Poverty Child, and Foster care and sub-adoption programs.

Mr. Chappius presented a report on the Montana State Hospital Crisis Management Initiative Process (Exhibit 8). This report provides information on staffing issues, census crisis, actions and results. In June 2005, the department received authority to increase RN and LPN wages which added 13 nurses. In October 2005, the determination was made to open the receiving hospital adding 20 beds and authorization to hire 36.6 FTE. The contingency plan would open another 20-bed unit, transfer some patients to the MMHNCC in Lewistown, or transfer patients to MDC. Mr. Chappius provided a handout on overcrowded state hospitals in Alaska and Maine (Exhibit 8a).

Ed Amberg, Director, Montana State Hospital, said that an overall increase in the number of admissions is driving the census. The types of admissions are substance abuse, high suicide rate,

diversion of people from jail programs and people that aren't complying with the community services provided.

In response to a question from **Chairman Cobb** regarding the community crisis facilities and the PACT program, Bob Mullan, AMDD, DPHHS, reported that the program officers have been hired and are in the process of collecting data to identify what communities need in crisis services and a public hearing will be held in January to hear the draft rules for community crisis response facilities. The program will be completed in March. He also said that PACT services have been added to Kalispell, Missoula and Great Falls. The programs are running 48 to 50 patients.

John Chappius, DPHHS provided a memo regarding FY 06 Cost Containment Actions (Exhibit 9). He stated that cost containment actions identified include:

- Holding positions open an extra 30 days
- Restricting in-state travel
- Restricting/elimination out-of-state travel
- Limiting equipment and supplies purchases to essential items only

Joe Mathews, Administrator, Developmental Disability Services Division provided a handout on the Montana Developmental Center (MDC) deficit/use of I-149 funds (Exhibit 10). He discussed in detail the circumstances at MDC and actions identified to mitigate the deficit.

In response to a question from **Representative Buzzas** regarding the 15 people to be moved off the waiting list, Mr. Mathews said MDC is in the process of moving 15 people, some will come from the institution and some will be from the community waiting list.

**MOTION:** The LFC voted to continue to monitor the BSR and requested staff to research and evaluate community services costs for the elderly and physically disabled and the home and community based waiver. **VOTE:** Motion passed unanimously.

**Chairman Cobb** appointed **Senator Laible** and **Representative Buzzas** to provide oversight regarding MSH populations. **Senator Cobb** and **Senator Williams** were appointed to provide oversight for the MDC and DD program.

## **Medicare Part D Implementation-Top 10 Questions – (Tape 2B-055)**

Lois Steinbeck, LFD introduced the agenda item and provided a brief summary background on the Top 10 Questions - Medicare Modernization Act. (Exhibit 11)

Jeff Buska, Medicaid Policy Analyst, DPHHS provided a copy of the auto enrollment letter sent by Centers for Medicare & Medicaid Services (CMS) and a letter the department will be sending to full benefit dual eligible beneficiaries, defined as individuals that have coverage under Medicare Part A or Part B and have a prescription drug benefit under the state's Medicaid program (Exhibits 12 & 12a). Approximately 14,706 individuals received the letter from CMS and approximately 11,800 will receive the letter from the department. The letter is required by CMS to give notice of adverse action of the change in the individual's prescription drug benefit, that is, the Medicaid program will no longer be primarily responsible for payment of prescription drugs. A national plan will be available at the point of sale for pharmacies so individuals can still obtain prescription drugs even if they have not been auto enrolled into a plan.

**Chairman Cobb** advised the LFC members of the handout from Gene Haire, Mental Disabilities Board of Visitors regarding comments on 1115 Medicaid Waiver Concept Paper (Exhibit 13).

**TANF Cash Assistance Benefits** – Pat Gervais, LFD briefly discussed her memo on TANF Cash Assistance Benefits (Exhibit 14). The purpose of this memo is to update the LFC on actions taken subsequent to the legislative session to increase the Temporary Assistance for Needy Families (TANF) cash assistance benefit level. Effective October 1, 2005 the average cash assistance benefit level was increased to 33 percent of the 2005 federal poverty level or for a family of 3 increased from \$405 per month to \$442 per month.

Hank Hudson, Administrator, Human and Community Services, DPHHS, commented that the department agreed to do what was in HB 2. However, the benefit increase did not include the additional \$30.00 Governor Martz had included in the benefit amount.

## **4. Enterprise IT Management – LAD Performance Audit** (Tape 2B-480)

David Nowacki, Legislative Audit Division discussed the Information Systems audit of Enterprise IT Management (Exhibit 15). The report contains findings and recommendations

addressing the overall implementation of the Montana Information Technology Act (MITA) and areas of shortcoming. There are four recommendations in the report, all of which the department concurred with.

Janet Kelly, Director, Department of Administration provided a handout on the MITA Implementation Progress (Exhibit 16). The department plans to address the lack of compliance with MITA focusing on an implementation plan, and providing clear and specific guidelines to agencies within state government. Since the audit report, the department has appointed Dick Clark as the new Chief Information Officer. Ms. Kelly said that it is the department's responsibility to make sure there is full compliance from the agencies. The department will make it clear to the agencies as to what is required and if they fail to meet the minimum requirements of MITA, appropriate action will be taken.

**Chairman Cobb** requested a list of agencies that are not in compliance with MITA.

#### **Information Technology Management Update** (Tape 3A-001)

Jeff Brandt, Acting CIO, Department of Administration discussed the CIO Report (Exhibit 17) and the Major IT Project Portfolio (Exhibit 17a). The report outlines information regarding MITA compliance, IT Projects, Policies, and State Strategic IT Plan. The Major IT Project Portfolio is a summary of all the IT projects that are underway in State Government. Mr. Brandt responded to questions from committee members.

**Rep. Buzzas** asked if the department is working on the Department of Justice end of life registry system. Mr. Brandt said he has not seen a request for that system but he will follow-up and report back to LFD staff.

**Sen. Laible** asked for clarification regarding the budget of the TEAM 261 project. Mr. Brandt said contract negotiations for the first phase was around \$14 million. The complete project is \$26 million.

**Sen. Cooney** asked for an explanation of the 16 critical issues in the Secretary of State's statewide voter registration system and are we looking at a mid February implementation date.

Mr. Brandt said that the critical issues are errors that do not allow the system to be installed and to be used. A mid February implementation date could be optimistic.

**Chairman Cobb** appointed **Senator Cooney** and **Senator Ryan** to oversee Information Technology MITA compliance.

#### **5. Pandemic Flu Epidemic – State Preparedness for a Pandemic Event** (Tape 3A-369)

Shane Sierer, Associate Fiscal Analyst, LFD provided a report on the State of Preparedness for a Pandemic Influenza Outbreak. (Exhibit 18) The purpose of the report is to provide the LFC with an opportunity to discuss the level of preparedness for an avian influenza outbreak. The LFD asked DPHHS to address the state of readiness for a pandemic influenza outbreak in the state of Montana.

Jane Smilie, Administrator, Public Health and Safety Division, DPHHS provided the following handouts: Response to LFC request (Exhibit 19), Pandemic Flu Frequently Asked Questions (Exhibit 19a); and Montana's Public Health Emergency Preparedness Progress Report (Exhibit 19b).

Ms. Smilie said the department has drafted a pandemic influenza response plan to be used in conjunction with other plans. The response plan lays the groundwork for an emergency response. The response plan must be considered a "work in progress," that will be updated when new information and guidelines from the World Health Organization or Center for Disease Control are available. The goals of the response plan are to:

- Limit or slow the spread of an influenza outbreak in Montana
- Mitigate the disease by easing the suffering and reducing the number of deaths
- Sustain the infrastructure and mitigate the impacts of the outbreak upon society

Dr. Todd Damrow, Epidemiologist, DPHHS expressed the importance of distinguishing between avian influenza and pandemic human influenza. The current avian influenza strain is not readily transmissible from human to human. Scientists are waiting to develop a vaccine in the event there is a mutation of the bird virus with a human virus.

Joan Miles, Director, DPHHS reported at the federal level there is an emphasis on developing the vaccinations and not a great deal of money going to the states and communities. The net result to Montana is less money.

#### **6. Committee Information Requests** (Tape 3B - 001)

Taryn Purdy, Principal Analyst, LFD discussed her report on Committee Information Requests (Exhibit 20). At the October LFC meeting, the committee and individual members compiled a list of areas for which they would like information from agencies. The agency responses were included in the mail-out. The table on page 2 of the report is a summary of all staff comments and concerns with the information provided.

#### **7. Other Reports** (Tape 3B - 030)

Greg DeWitt , Senior Fiscal Analyst for the LFD presented the Budget Amendments ( Exhibit 21). He informed the committee that LFD staff identified no issues and that no action is required.

Taryn Purdy, LFD presented a report on Appropriations Transfer Submitted by the Governor (Exhibit 22). The Governor submitted a potential transfer of appropriations from FY 2007 to FY 2006. It is the obligation of the LFC to report to the Governor whether, in the committee's review, the request meets statutory criteria and to raise any necessary compliance issues. Ms. Purdy offered three options for consideration.

**MOTION:** **Senator Cooney** moved to adopted option 1, "Inform the governor that the committee does not raise any issues of statutory compliance with the proposed transfer."

**VOTE:** Motion passed unanimously.

Taryn Purdy, LFD presented the Operating Plan Changes and Program Transfers of a Time Sensitive Nature (Exhibit 23) and the Operating Plan Changes (Exhibit 24) stating that the LFD reviewed these and had no significant issues with them.

Jon Moe, LFD provided a summary of the Required Reports (Exhibit 25). These are reports required either in HB 2 or in statute. These reports are provided by the various agencies that are responsible for them based upon the legislatures request for information. Also included is the

revised report from the Governor's Office of Economic Opportunity regarding outcome based goals and objectives, requested at the October LFC meeting. (Exhibit 25a)

**Senator Laible** requested a revised report to include benchmarks and projections on their goals and any problems.

### **WEDNESDAY, DECEMBER 7, 2005**

#### **ROLL CALL**

Sen. Rick Laible  
Sen. Mike Cooney  
Sen. Carol Williams  
Sen. Don Ryan  
Sen. John Cobb  
Rep. Gary Branae  
Rep. Rosalie Buzzas  
Rep. Ray Hawk  
Rep. Tim Callahan  
Rep. Rick Ripley  
Clayton Schenck, Legislative Fiscal Analyst  
Diane McDuffie, Committee Secretary

#### **ABSENT**

Sen. Keith Bales  
Rep. John Sinrud

#### **Call to Order** (Tape 4A-000)

The 194<sup>th</sup> meeting of the Legislative Finance Committee (LFC) reconvened on Wednesday, October 7, 2005, and was called to order at 8:00 a.m. by **Senator Cobb**, Chair, in Hearing Room 102 of the State Capitol, Helena, Montana.

#### **8. General Fund Update: 2007 Biennium Projected** (Tape 4A-453)

Terry Johnson, Principal Fiscal Analyst, LFD, presented a power point presentation on the General Fund Update: 2007 Biennium Projected. (Exhibit 26) This report provides a recap of fiscal year 2005, details of new information received since the October meeting, a summary and the projected outlook for the 2009 biennium with the Governor's proposal for school funding. Mr. Johnson reported that the ending fund balance for fiscal year 2005, as of June 30 is \$297.4 million, \$135.0 million above the level anticipated by the legislature. The three main areas of additional revenues are in individual income, corporation income, and oil and natural gas production taxes. Individual income tax has experienced increased growth resulting from higher

net capital gains, dividend, and royalty income in calendar 2004. The projected general fund ending balance for the 2007 biennium is \$180.8 million. This includes wildfires, and other adjustments, additional revenues and the Governor's proposal for school funding. Mr. Johnson responded to questions from LFC members.

**Committee Business** (Tape 4A-615)

Clayton Schenck explained that the Montana Budget Reporting System Software (MBARS) is facing obsolescence due to nonsupport in the future by the vendor. The vendor has developed a core system that they are now selling to a number of states. In the near future, LFD will have to consider either going with a different vendor or upgrading to the core model, estimated at over a million dollars. The system is used by the agencies to submit their budget, the Office of Budget and Program Planning uses it for the Governor's budget and our office uses it for our analysis and also to create HB 2. The LFD will provide an update at the next meeting.

Clayton Schenck presented the items under committee business. (Exhibit 27) There were no items that required any action by the committee.

Another item discussed in the Management Advisory Group is the issue of the bentonite tax. The decision of the Governor's office was not to include it in the call and their position is that they believe that the action they took is within statute. Senator Bales has requested that a petition be drafted to have a concurrent session to deal with this issue. The petition is available if any of the members of the committee wish to sign it.

**9. School Funding Study: Update on Interim Study Action/Issues Facing the Legislature in Potential Special Session** (Tape 4B-150)

Jim Standaert, Senior Fiscal Analyst, LFD briefly discussed the final product of the Quality Schools Interim Committee (QSIC) and why it stalled. He also discussed the Governor's proposal for ongoing school funding and the proposals for one-time funding of the retirement systems.

Mr. Standaert referred to a letter to Senator Jon Tester from Greg Petesch, LSD (Exhibit 28) regarding whether the QSIC met the requirements of SB 525. The letter states that the QSIC met all of the requirements contained in SB 525 before the imposed December 1, 2005 deadline. Mr.

Standaert also referred to several charts showing the new funding formula and the Governor's proposal (Exhibit 28a) and provided an explanation of each. Senator Ryan; Jim Standaert; Amy Carlson, OPBB; Madalyn Quinlan, OPI; and Eddy McClure, LSD responded to questions from LFC members.

In response to a question from **Senator Laible** regarding the Governor's proposal, Greg Petesch, LSD, said that the Governor's bill addresses some of the legislatively determined educationally relevant factors that are contained in the definition of the basic system of quality, elementary and secondary schools. Mr. Petesch also said that the proposal does not address the per ANB entitlement or the basic entitlements that are in existing law that comprise the formula that was declared invalid.

#### **10. Pension Plans Unfunded Liability: Report on HJR 42 Study** (Tape 5A-588)

Jon Moe, Fiscal Specialist, LFD presented a report on SAVA Committee Public Employee Retirement Legislation (Exhibit 29). The State Administration and Veterans' Affairs Interim Committee (SAVA) approved two bill drafts that would be available for the special session or the next regular session. LC2006-2 directs the SAVA interim committee to monitor the soundness of the state's public retirement systems and to review all legislative proposals for statutory change (Exhibit 29a). LC2005-3 provides statutory changes, primarily to increase employer contribution rates, and would appropriate funds necessary to achieve the actuarial soundness of the four public retirement systems (Exhibit 29b). Mr. Moe also presented a memo regarding Retirement System Options, and Cost Factors (Exhibit 31). This memo was prepared in response to questions submitted by Senator Laible. Mr. Moe responded to questions from committee members.

#### **11. Energy Cost Assistance Programs (LIEAP and others)** (Tape 5B-125)

Marilyn Daumiller, Associate Fiscal Analyst, LFD presented a report on Energy Cost Assistance Programs (Exhibit 31). The purpose of this report is to provide the LFC with information regarding energy assistance available to low-income families, including the federal Low Income Energy Assistance Program (LIEAP) grant and Universal System Benefits (USB). Funds presently available for benefits for the 2006 heating season are: federal funding of \$9.3 million from the LIEAP grant provides \$6.8 million for benefits; general fund of \$0.2 million; and

additional energy conservation/assistance funds that become available if the federal grant is below \$11 million.

Pat Gervais, Senior Fiscal Analyst, LFD discussed the Universal System Benefits (USB) program. The USB is funded by a charge on consumer utility bills. The families that are eligible for federal LIEAP grants funds are also eligible for discounts on their utility bills. NorthWestern Energy announced it will provide \$550,000 per year of non-USB grant funds to assist low-income families above the income levels used to determine eligibility for federal LIEAP grant funds. These funds are allocated on a first come, first served basis until the funds are expended. In addition to NorthWestern Energy, two other Montana utility companies (Montana-Dakota and Energy West of Montana) are also required to comply with the statute regarding USB.

### **13. Department of Revenue Property Assessment Division Computer System Budget Shortfall** (Tape 5B-315)

Greg DeWitt introduced this agenda item and explained the reason for the letter from the Department of Revenue. (Exhibit 32)

Dan Bucks, Director, Department of Revenue said that the department will seek a supplemental budget request in the 2007 Legislative Session to cover a portion of the shortfall in the budget for the new property tax computer system. The appropriation in HB 2 of \$5.5 million was short by about \$430,000. Mr. Bucks stated the prior administration of the Department of Revenue, Department of Administration, and the Office of Budget and Program Planning did not take the necessary steps to ensure that the budget proposal was properly prepared. The department, ITSD and the budget office are fully committed to working together to ensure compliance with the MITA.

Director Ewer stated that he shares in the department's commitment to ensuring agency compliance with MITA.

In response to a question from **Senator Williams** regarding whether the Governor's proposal addresses the lawsuit, Mr. Ewer said it does address the lawsuit. The Governor's funding formula refined the components and made it easier to understand. It may not satisfy everyone

and there may be calls for additional funds in the next session but the new formula is adequate and affordable.

**Senator Laible** asked Mr. Ewer to respond to the issues of adding the bentonite tax issue to the special session. Mr. Ewer said the Governor is not supporting anything outside the call.

## **12. Energy Price Increases: Impact on State Agency Budgets** (Tape 6A-269)

### **Natural Gas**

Taryn Purdy, Principal Fiscal Analyst, LFD presented a report on Energy Price Increases: Impact on State Agency Budgets (Natural Gas) (Exhibit 33) The purpose of this report is to provide an update on state expenditures for natural gas and the potential for programmatic impact of high natural gas prices. Through November, expenditures are still trending significantly higher than the base year, which the legislature inflated 18 percent for FY 2006 and 12 percent for FY 2007. The Department of Corrections and the Department of Military Affairs are spending more than expected and may have to reallocate resources to pay these additional costs.

## **Energy Price Increases: Impact on State Agency Budgets (continued)** (Tape 6A-320)

### **Motor Fuel**

Greg DeWitt, Senior Fiscal Analyst, LFD presented a report on Energy Price Increases: Impacts on State Agency Budgets (Motor Fuel) (Exhibit 34). This report focuses only on the fuel purchases by state government funded with HB 2 appropriations and the impacts of high motor fuel prices on agency services that are performed through travel in state vehicles. Current prices are 47 percent higher than the prices that existed during the base year for the current budget. Although prices are significantly higher than during the base year, motor fuel expenditures comprise relatively small portions of agency budgets and fuel conservation initiatives appear to be working to control over expenditure of motor fuel budgets. Higher motor fuel prices should not lead to a budget crisis nor impact state services.

## **14. Financial Reliance on Federal Funds/Implications of Deficits** (Tape 6A-415)

Taryn Purdy, LFD presented a report on Financial Reliance on Federal Funds/Implications of Deficits (Exhibit 35). The purpose of this report is to provide information on the study of the state reliance on federal funds, and the potential impacts of reductions in federal funds on state and local operations. This report explains how much and for what purposes federal funds are

received by state government, the federal budgeting process, and Congressional Budget Office estimates of current and future federal budget deficits. The state of Montana received in the budget about \$1.5 billion for FY 2003. The U.S. Census Bureau reports that the federal government expended \$7.1 billion in total payments in Montana that year. The impact of federal spending on Montana's economy is profound. The more federal funds the state receives, the more vulnerable the state is to potential changes of funding provided to the state. The three areas that dominate functions funded with federal funds are: 1) Public Health and Human Services; 2) K-12 and higher education; and 3) Department of Transportation. In the resolution passed by Congress in 2005, a total reduction of \$50 billion over a 5-year period from the amounts that would be expended in the baseline calculations was incorporated. As of this report, Congress is still considering a number of measures to meet this reduction target. LFD staff will provide an update at the March meeting.

#### **15. Status Report on LFC Interim Subcommittees/Studies** (Tape 6A-582)

##### **Resource Indemnity Trust Statutes and Policies**

Barbara Smith, LFD provided an update on HJR 36 – Resource Indemnity Trust (Exhibit 36). The subcommittee met on December 5<sup>th</sup> and received testimony regarding the programs that are funded with RIT interest or the Resource Indemnity and Ground Water Assessment (RIGWA) tax. Thirty-five programs from eight agencies and two universities provided program information, goals and objectives, identified management issues and defended the use of RIT or RIGWA resources. The subcommittee rated the programs based on benefits to the state and conformity with RIT or RIGWA funding. These scores will be consolidated to provide a priority-funding list and begin work to develop options to revise statutes to meet the intention of the subcommittee. The top five programs of importance to the subcommittee are: 1) Montana Bureau of Mines and Geology; 2) Renewable Resource Grant and Loan Program; 3) Reclamation and Development Grant Program; 4) Oil and Gas mitigation damage; and 5) St. Mary's Rehabilitation Project. The next meeting of the RIT subcommittee will be in March prior to the full meeting of the LFC. The subcommittee is on schedule to provide the LFC a full report of recommendations at the June 2006 meeting.

##### **Long Range Building Funding Interim Study** (Tape 6A-696)

**Senator Cooney** reported that the LRBP meeting scheduled for December 8<sup>th</sup> was cancelled and will be rescheduled in January.

**Community Colleges Funding Model (Tape 6B-001)**

Alan Peura, Associate Fiscal Analyst, LFD presented a report on the Community Colleges Funding Formula Study: The Cost of Education (COE) Factor (Exhibit 37). LFD staff under the direction of the LFC has completed an interim study to look at each community college to determine if the COE factor is flawed and, if so, identify formula options whereby a more accurate calculation of the cost of education may be determined by the legislature. The study includes representatives from the Office of Budget and Program Planning and the Office of the Commissioner of Higher Education. A preliminary report is expected in January with the complete report to be presented to the Legislative Finance Committee in March.

**Fiscal Notes Improvement Working Group (Tape 6B-110)**

Clayton Schenck reported the Legislative Council has not yet appointed their members and they don't meet until January. It will be mid January before the working group meets.

**Postsecondary Education Policy and Budget Subcommittee (Tape 6B-116)**

Alan Peura presented an update on the Postsecondary Education Policy and Budget Subcommittee (PEPB) (Exhibit 38). The PEPB subcommittee met December 1 and began working on the work plan projects adopted in October. The subcommittee unanimously approved the Shared Policy Goals and Accountability Measures for the Montana University System, as well as renewed the Agreement with the Montana Board of Regents. The subcommittee intends to use this document to guide their consideration of supporting budget initiatives and potential funding recommendations for HB 2 in the 2009 biennium.

**Committee Business Continued** (Tape 6A-160)

Clayton Schenck presented a memo regarding the Justice Information Technology System (Exhibit 39). The purpose of the memo is to provide the LFC information regarding funding for the Department of Justice motor vehicle reengineering and information technology project. This project is funded with state special revenue from a \$4.00 increase in lien filing fees on vehicles and a \$5.00 increase in titling fees. Department staff indicates that contract negotiations have been completed. The contract costs of phase one, the core system is \$11.4 million and the funding for this phase is available. The department is working to acquire grant and other funding for phase two and may seek additional funding for completion of the second phase from the legislature.

Clayton Schenck relayed the discussions by the Management Advisory Subcommittee (MAS) regarding comp time balances. Mr. Schenck also proposed to change the MAS to Management Advisory Working Group, (MAWG). The MAS is open to the public but is intended to be an advisory group.

**MOTION:** Representative Buzzas moved to approve to change the rules of the committee to Management Advisory Working Group. **VOTE:** Motion passed.

Clayton Schenck relayed to the committee the discussions and recommendations by the MAS regarding data access with the Department of Revenue. Mr. Schenck provided a draft letter for the committee's consideration. (Exhibit 40) The committee approved the letter be sent.

**Chairman Cobb** expressed concern about the lack of timeliness in agencies hiring of FTE for which funding was authorized. **Senator Cobb** suggested a list for appropriation subcommittees when examining requests for funding for additional FTE to consider either creating a line-item appropriation, not provide funding in agencies that have not hired previously funded FTE in a timely manner, or not provide funding without assurances from the agency that the positions will be filled in a timely manner.

Lois Steinbeck relayed information to the committee regarding training available to committee members through NCSL and the Annie Casey Foundation. Funding members of this committee as well as Representatives Morgan and Jayne was discussed with the MAS. Seven members of the LFC expressed interest in attending. The committee agreed to pay for Representatives Morgan and Jayne from the LFD budget.

Clayton Schenck presented the "Bulldog" List (Exhibit 41). **Senator Cobb** explained members are appointed only to provide oversight and to report back at the March meeting.

**Senator Cobb** referred to page 2 of the Committee Information Request document (Exhibit 20) and recommended LFD staff follow-up on the following:

- DNRC/Forestry
- Dept. of Revenue

- Dept. of Administration
- OPI
- Department of Corrections
- DEQ
- Transportation

**Senator Cooney** referred to a letter from Joe Mathews, DSD regarding provider rates and the pilot programs. (Exhibit 41) He requested this be added to the list of issues for future follow-up. **Senator Cobb** suggested a follow-up at the March meeting.

In response to a question from **Senator Cooney** regarding hearings for the special session, Lois Menzies, Director, LSD, relayed what information she had to date, stating there would be no pre-session hearings associated with any bills during the session. Currently there are six different bills to be pre-introduced, leadership will assign the bills to a committee and the committee chair will schedule the hearing. Ms. Menzies suggested any legislator that wants to expand the call through a petition to go through Greg Petesch.

#### **Next LFC Meeting**

The next meeting of the LFC will be Thursday and Friday, March 9 and 10, 2006.

#### **Adjournment**

Meeting adjourned at 2:30 p.m.

---

Senator Cobb, Chairman

---

Diane McDuffie, Committee Secretary

